



HC INTERNATIONAL, INC.

慧聪网有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8292)

FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31ST MARCH 2011

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This announcement, for which the directors (the “Directors”) of HC International, Inc. (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

* For identification purpose only

UNAUDITED FIRST QUARTERLY RESULTS

The board of the Directors (the “Board”) hereby announce the unaudited financial results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31st March 2011, together with the comparative figures for the corresponding period in 2010.

Financial Highlights

	Three months ended 31st March	
	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Revenue	98,285	70,931
Gross profit	75,364	50,876
Adjusted EBITDA/(LBITDA)	2,768	(9,373)
Loss attributable to equity holders	(1,946)	(8,998)

Key Financial Figures for the First Three Months of 2011

- Revenue of the Group for the three months ended 31st March 2011 was approximately RMB98.29 million, which represented an increase of approximately 38.6%, as compared to approximately RMB70.93 million (including approximately RMB70.45 million from continuing operations and approximately RMB481 thousand from discontinued operation) for the corresponding period in the previous financial year.
- Gross profit ratio of the Group for the three months ended 31st March 2011 was approximately 76.7% as compared to approximately 71.7% for the corresponding period in the previous financial year.
- The Group incurred an adjusted profit before interest, income tax, depreciation, amortization of intangible assets, land use rights and share based payment (EBITDA) of approximately RMB2.77 million for the three months ended 31st March 2011 as compared to LBITDA of approximately RMB9.37 million (including LBITDA of approximately RMB8.77 million from continuing operations and LBITDA of approximately RMB0.6 million from discontinued operation) for the corresponding period in the previous financial year.
- Loss attributable to equity holders of the Group for the three months ended 31st March 2011 was approximately RMB1.95 million as compared to approximately RMB9.00 million for the corresponding period in the previous financial year.

Financial and Business Review

For the three months ended 31st March 2011, the Group recorded a revenue of approximately RMB98.29 million from the operations (2010: RMB70.93 million, including approximately RMB70.45 million from continuing operations and approximately RMB481 thousand from discontinued operation). This represented an increase of approximately 38.6% in revenue as compared to that in the corresponding period in the previous financial year.

During the reporting period, the Group achieved a revenue of approximately RMB19.27 million (2010: RMB20.53 million) from its trade catalogues and yellow page directories business segment. The Group achieved a revenue of approximately RMB52.22 million (2010: RMB28.82 million) from its on-line services business segment. The Group achieved a revenue of approximately RMB15.91 million (2010: RMB12.07 million) from its market research and analysis business segment. The Group achieved a revenue of approximately RMB10.89 million (2010: RMB9.51 million) from other business segment.

The loss before income tax of the Group for the three months period ended 31st March 2011 was approximately RMB3.06 million (2010: loss of RMB14.18 million, including loss of approximately RMB12.35 million from continuing operations and approximately loss of RMB1.83 million from discontinued operation).

As one of the core e-commerce operators, the Group has been upgrading e-commerce products in 2010 and launched new value-added services with an aim to enhance quality of service, which has optimized the marketing performance of SMEs e-commerce business, procured completion of transactions and expanded the brand effect of the enterprise.

The Group has formed a multi-facet matrix of products and resources, comprising both on-line and off-line products, which successfully build up a unique B2B marketing pattern named “on-line + yellow + Top 10”, which provide the best product or commercial solution for customers in full scale.

To maximize the revenue, the Group established three key sales teams, namely the Industry Direct Sales, the Agency Sales and the Telemarketing Sales Teams since 2006, to market its on-line and off-line products and services to different target market segments.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the Three Months Ended 31st March 2011*

	Note	Three months ended 31st March	
		2011 RMB'000	2010 RMB'000
Continuing operations			
Revenue		98,285	70,450
Cost of revenue		(22,921)	(20,055)
Gross profit		75,364	50,395
Other income		520	597
Selling and marketing expenses		(58,801)	(42,914)
Administrative expenses		(20,724)	(20,313)
Share of profit/(loss) of an associated company		579	(116)
Loss before income tax		(3,062)	(12,351)
Income tax	2	1,032	2,892
Loss for the period from continuing operations		(2,030)	(9,459)
Discontinued operation			
Loss from discontinued operation	3	-	(1,686)
Loss for the period		(2,030)	(11,145)
Other comprehensive loss			
Currency translation difference		(177)	(32)
Total comprehensive loss for the period		(2,207)	(11,177)
Loss attributable to:			
– equity holders of the Company		(1,946)	(8,998)
– non-controlling interests		(84)	(2,147)
		(2,030)	(11,145)
Total comprehensive loss attributable to:			
– equity holders of the Company		(2,123)	(9,030)
– non-controlling interests		(84)	(2,147)
		(2,207)	(11,177)

	<i>Note</i>	Three months ended 31st March	
		2011 RMB'000	2010 <i>RMB'000</i>
Loss per share attributable to the equity holders of the Company (expressed in RMB per share)			
Basic loss per share	4		
From continuing operations		(0.0040)	(0.0150)
From discontinued operation		-	(0.0034)
Diluted loss per share	4		
From continuing operations		(0.0040)	(0.0150)
From discontinued operation		-	(0.0034)
Dividends	5	-	-

NOTES TO THE ACCOUNTS

1 General information and basis of preparation

(a) *General information*

HC International, Inc. (the "Company") and its subsidiaries (collectively referred as the "Group") organize a business-to-business community across China by providing business information through both on-line and off-line channels. The Group operates an on-line marketplace and provides industrial search result prioritising services through its business-to-business website "hc360.com". The Group also publishes its own trade catalogues and yellow page directories and generates market research reports in China.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is 4th Floor, One Capital Place, P.O. Box 847, George Town, Grand Cayman, Cayman Islands, the British West Indies.

The Company has its primary listing on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The unaudited condensed consolidated first quarterly financial information are presented in thousands of units of RMB (RMB'000), unless otherwise stated. The unaudited condensed consolidated first quarterly financial information has been approved for issue by the board of Directors on 11th May 2011.

(b) *Basis of preparation*

This unaudited condensed consolidated first quarterly financial information for the three month ended 31st March 2011 has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The unaudited condensed consolidated first quarterly financial information should be read in conjunction with the annual report of the Group for the year ended 31st December 2010.

The classification of certain items on the consolidated statement of comprehensive income for the year ended 31st December 2010 has been changed, and it is applied in the condensed consolidated statement of comprehensive income for the period ended 31st March 2011, and hence, the comparative figures in the condensed consolidated statement of comprehensive income for the period ended 31st March 2010 are restated. The following is the effect of the reclassification:

	Three months ended 31st March 2010
	<i>RMB'000</i>
Increase in selling and marketing expenses	15,857
Increase in administrative expenses	323
Decrease in cost of sales	(16,180)

This unaudited condensed consolidated first quarterly financial information has been prepared under the historical cost convention.

2 Income tax

	Three months ended 31st March	
	2011 RMB'000	2010 RMB'000
Current income tax		
– Hong Kong profits tax (i)	–	–
– The PRC enterprise income tax (“EIT”) (ii)	(81)	(754)
Deferred income tax	1,113	3,646
	1,032	2,892

- (i) No Hong Kong profits tax has been provided for as there was no assessable profit arising in Hong Kong for the period (2010: Nil).
- (ii) The PRC corporate income tax represents taxation charged on assessable profits for the period at the rates of taxation prevailing in the cities in the PRC in which the Group operates. The subsidiaries of the Group established in the PRC are generally subject to income tax on their taxable income at a combined national and local tax rate of 25%. Certain subsidiaries enjoy tax preferential rights and subject to a tax rate of 15% during the period.

3 Discontinued operation

On 27th August 2010, the Group disposed its 60% equity interest in 北京花開富貴信息技術有限公司. An analysis of the results of the discontinued operation is as follows:

	Three months ended 31st March	
	2011 RMB'000	2010 RMB'000
Revenue	–	481
Expenses	–	(2,307)
Loss before income tax	–	(1,826)
Tax	–	140
Loss after income tax	–	(1,686)
Loss from discontinued operation	–	(1,686)

4 Loss per share

The calculation of basic loss per share for the three months ended 31st March 2011 is based on the respective unaudited loss attributable to the equity holders of approximately RMB1,946 thousand (2010: RMB8,998 thousand) and the weighted average of approximately 489,102 thousand (2010: 488,179 thousand) ordinary shares in issue during the period.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of the share options, the dilutive potential ordinary shares of the Company. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares over the period) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

The conversion of all potential ordinary shares arising from share options granted by the Company would have an anti-dilutive effect on the loss per share. As a result, the basic loss per share and diluted loss per share are the same.

5 Dividend

No dividend was paid or declared by the Company during the period (2010: Nil).

6 Other reserves

	Group							Total RMB'000
	Share premium RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Share-based compensation reserves RMB'000	Share redemption reserve RMB'000	Exchange reserve RMB'000	Other reserve RMB'000	
Balance at 1st January 2010	132,734	987	108,830	29,071	496	(6,845)	-	265,273
Share option scheme-value of employee services	-	-	-	1,080	-	-	-	1,080
Currency translation difference	-	-	-	-	-	(32)	-	(32)
At 31st March 2010	132,734	987	108,830	30,151	496	(6,877)	-	266,321
Balance at 1st January 2011	133,044	987	108,830	37,002	496	(7,490)	(48,474)	224,395
Exercise of share options	128	-	-	-	-	-	-	128
Share option scheme-value of employee services	-	-	-	2,262	-	-	-	2,262
Currency translation difference	-	-	-	-	-	(177)	-	(177)
At 31st March 2011	133,172	987	108,830	39,264	496	(7,667)	(48,474)	226,608

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31st March 2011, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

Directors' long positions in the shares of the Company

Name of Director	Class of shares	Capacity	Personal interests	Family interests	Corporate interests	Other interests	Total number of shares	Approximate percentage of shareholding
Guo Fansheng	Ordinary	Beneficial owner	69,647,015	-	-	-	69,647,015	14.24%
Guo Jiang	Ordinary	Beneficial owner/family interest	60,179,146 (Note 1)	7,008,625 (Note 1)	-	-	67,187,771 (Note 1)	13.73%
Li Jianguang	Ordinary	Interest of controlled corporation	-	-	40,000,384 (Note 2)	-	40,000,384 (Note 2)	8.18%
Guo Bingbing	Ordinary	Beneficial owner	4,000,000 (Note 3)	-	-	-	4,000,000 (Note 3)	0.82%

Notes:

- Such interest in the Company comprises:
 - 50,253,771 shares of the Company of which 1,074,625 shares of the Company are held by Ms. Geng Yi, Mr. Guo's spouse; and
 - 16,934,000 underlying shares of the Company derived from the share options granted under the Share Option Scheme of which 5,934,000 underlying shares of the Company derived from the share options granted to Ms. Geng Yi, Mr. Guo's spouse, under the Share Option Scheme.
- The references to 40,000,384 shares of the Company relate to the same block of shares of the Company held by Callister Trading Limited, the entire share capital of which is owned by Mr. Li Jianguang. Accordingly, Mr. Li Jianguang is deemed, or taken to be, interested in the said 40,000,384 shares of the Company pursuant to the SFO.
- Such interest in the Company comprises 4,000,000 underlying shares of the Company derived from the share options granted to Ms. Guo Bingbing under the Share Option Scheme.

Save as disclosed above, none of the Directors and chief executives of the Company has any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO) or required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rule 5.46 of the GEM Listing Rules.

SHARE OPTION SCHEMES

Pursuant to written resolutions of the shareholders of the Company dated 30th November 2003, two share option schemes, a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme"), were adopted by the Company. The principal terms of the Pre-IPO Share Option Scheme and the Share Option Scheme were summarised in the paragraph headed "Share options" under the section headed "Statutory and General Information" in Appendix V of the prospectus of the Company dated 8th December 2003.

OUTSTANDING SHARE OPTIONS

(a) Pre-IPO Share Option Scheme

As at 31st March 2011, options to subscribe for an aggregate of 9,147,120 shares of the Company granted pursuant to the Pre-IPO Share Option Scheme were outstanding. Details of which were as follows:

Name of grantee	Date of grant	Exercise price per share <i>HK\$</i>	Number of share options				As at 31st March 2011 <i>(Note 1)</i>
			As at 1st January 2011	Granted during the period	Exercised during the period	Lapsed during the period	
Ex-employees							
Fan Qimiao	2nd December 2003	0.44	5,111,104	-	-	-	5,111,104
Gu Yuanchao	2nd December 2003	0.44	3,777,774	-	-	-	3,777,774
Other employees							
In aggregate <i>(Note 2)</i>	2nd December 2003	0.44	258,242	-	-	-	258,242
Total			9,147,120	-	-	-	9,147,120

Notes:

- Each option has a 10-year exercise period, which may be exercised after the expiry of twelve months from the date on which trading in the shares of the Company first commenced on GEM (the "Listing Date"), being 17th December 2003. Commencing from the first, second and third anniversaries of the Listing Date, the relevant grantee may exercise options up to 33.3%, 66.6% and 100%, respectively, of the shares of the Company comprised in his or her option (less any number of shares of the Company in respect of which the option has been previously exercised).
- As at 31st March 2011, there were 3 employees who had been granted with options under the Pre-IPO Share Option Scheme to acquire an aggregate of 258,242 shares of the Company.

(b) Share Option Scheme

As at 31st March 2011, options to subscribe for an aggregate of 67,121,000 shares of the Company granted pursuant to the Share Option Scheme were outstanding. Details of which were as follows:

Name of grantee	Date of grant	Exercise price per share HK\$	As at 1st January 2011	Granted during the period	Exercised during the period	Lapsed during the period	As at 31st March 2011 (Note 1)
<i>Directors</i>							
Guo Jiang	18th February 2004	2.40	1,000,000	-	-	-	1,000,000
	23rd June 2006	1.49	1,000,000	-	-	-	1,000,000
	11th July 2007	1.24	2,200,000	-	-	-	2,200,000
	29th September 2008	0.604	2,000,000	-	-	-	2,000,000
Guo Bingbing	7th April 2010	0.82	4,800,000	-	-	-	4,800,000
	29th September 2008	0.604	800,000	-	-	-	800,000
	7th April 2010	0.82	3,200,000	-	-	-	3,200,000
<i>Senior management</i>							
Geng Yi	18th February 2004	2.40	300,000	-	-	-	300,000
	23rd June 2006	1.49	434,000	-	-	-	434,000
	29th September 2008	0.604	1,000,000	-	-	-	1,000,000
	7th April 2010	0.82	4,200,000	-	-	-	4,200,000
John Hong	29th September 2008	0.604	1,000,000	-	-	-	1,000,000
	7th April 2010	0.82	3,200,000	-	-	-	3,200,000
Zhao Long	18th February 2004	2.40	30,000	-	-	-	30,000
	23rd June 2006	1.49	66,000	-	-	-	66,000
	11th July 2007	1.24	145,000	-	-	-	145,000
	29th September 2008	0.604	800,000	-	-	-	800,000
	7th April 2010	0.82	3,200,000	-	-	-	3,200,000
Gao Xin	29th September 2008	0.604	1,000,000	-	-	-	1,000,000
	7th April 2010	0.82	3,200,000	-	-	-	3,200,000
<i>Other employees</i>							
In aggregate (Note 2)	18th February 2004	2.40	5,544,000	-	-	(50,000)	5,494,000
In aggregate (Note 3)	23rd June 2006	1.49	2,142,000	-	-	(84,000)	2,058,000
In aggregate (Note 4)	11th July 2007	1.24	6,950,000	-	-	(176,000)	6,774,000
In aggregate (Note 5)	29th September 2008	0.604	5,620,000	-	(300,000)	-	5,320,000
In aggregate (Note 6)	7th April 2010	0.82	11,300,000	-	-	(400,000)	10,900,000
In aggregate (Note 7)	28th March 2011	1.108	-	3,000,000	-	-	3,000,000
Total			65,131,000	3,000,000	(300,000)	(710,000)	67,121,000

Notes:

1. Each option has a 10-year exercise period, which may be exercised after the expiry of twelve months from the date of the grant of options.

For the options exercisable at HK\$2.40 granted on 18th February 2004, the relevant grantees may exercise options up to 33.3%, 66.6% and 100%, respectively, of the shares of the Company comprised in his or her option (less any number of shares of the Company in respect of which the option has been previously exercised), commencing from the first, second and third anniversaries of the date of the grant of options.

For the options exercisable at HK\$1.49 granted on 23rd June 2006, the relevant grantees may exercise these options in a 10-year period starting from the expiry of twelve months from the date of the grant of options.

For the options exercisable at HK\$1.24 granted on 11th July 2007, the relevant grantees may exercise options up to 50% and 100%, respectively, of the shares of the Company comprised in his or her option (less any number of shares of the Company in respect of which the option has been previously exercised), commencing from the first and second anniversaries of the date of the grant of options.

For the options exercisable at HK\$0.604 granted on 29th September 2008, the relevant grantees may exercise these options in a 10-year period starting from the expiry of twelve months from the date of the grant of options.

For the options exercisable at HK\$0.82 granted on 7th April 2010, the relevant grantees may exercise options up to 50% and 100%, respectively, of the shares of the Company comprised in his or her option (less any number of shares of the Company in respect of which the option has been previously exercised), commencing from the first and second anniversaries of the date of the grant of options.

For the options exercisable at HK\$1.108 granted on 28th March 2011, the relevant grantees may exercise options up to 50% and 100%, respectively, of the shares of the Company comprised in his or her option (less any number of shares of the Company in respect of which the option has been previously exercised), commencing from the first and second anniversaries of the date of the grant of options.

2. 49 employees have been granted options under the Share Option Scheme to acquire an aggregate of 5,494,000 shares of the Company at HK\$2.40 per share.
3. 26 employees have been granted options under the Share Option Scheme to acquire an aggregate of 2,058,000 shares of the Company at HK\$1.49 per share.
4. 34 employees have been granted options under the Share Option Scheme to acquire an aggregate of 6,774,000 shares of the Company at HK\$1.24 per share.
5. 25 employees have been granted options under the Share Option Scheme to acquire an aggregate of 5,320,000 shares of the Company at HK\$0.604 per share.
6. 13 employees have been granted options under the Share Option Scheme to acquire an aggregate of 10,900,000 shares of the Company at HK\$0.82 per share.
7. 22 employees have been granted options under the Share Option Scheme to acquire an aggregate of 3,000,000 shares of the Company at HK\$1.108 per share.

8. The fair value of options granted under the Share Option Scheme on 18th February 2004, determined using the Binomial Model value model, was approximately RMB20,193,000. The significant inputs into the model were the exercise price of HK\$2.4, standard deviation of expected share price returns of 32%, expected life of options ranging from 5.4 to 6.6 years, expected dividend paid out rate of 0% and annual risk-free interest rate ranging from 1.34% to 4.43%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.
9. The fair value of options granted under the Share Option Scheme on 23rd June 2006, determined using the Binomial Model valuation model, was approximately RMB3,919,000. The significant inputs into the model were exercise price of HK\$1.49, standard deviation of expected share price returns of 34.8%, expected life of options ranging from 3.2 to 5.5 years expected dividend paid out rate of 0% and annual risk free interest rate 4.911%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.
10. The fair value of options granted under the Share Option Scheme on 11th July 2007, determined using the Binomial Model valuation model, was approximately RMB9,390,000. The significant inputs into the model were exercise price of HK\$1.24 standard deviation of expected share price returns of 49.0%, expected life of options ranging from 2.4 to 6.2 years expected dividend paid out rate of 0% and annual risk-free interest rate 4.757%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.
11. The fair value of options granted under the Share Option Scheme on 29th September 2008, determined using the Binomial Model valuation model, was approximately RMB2,756,000. The significant inputs into the model were exercise price of HK\$0.604 standard deviation of expected share price returns of 72.2%, expected life of options ranging from 3.8 to 4.8 years expected dividend paid out rate of 0% and annual risk-free interest rate 3.133%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.
12. The fair value of options granted under the Share Option Scheme on 7th April 2010, determined using the Binomial Model valuation model, was approximately RMB12,527,000. The significant inputs into the model were exercise price of HK\$0.82 standard deviation of expected share price returns of 79.8%, expected life of options ranging from 3.4 to 5.9 years expected dividend paid out rate of 0% and annual risk-free interest rate 2.865%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.
13. The fair value of options granted under the Share Option Scheme on 28th March 2011, determined using the Binomial Model valuation model, was approximately RMB1,377,000. The significant inputs into the model were exercise price of HK\$1.108 standard deviation of expected share price returns of 77.4%, expected life of options ranging from 3.8 to 4.9 years expected dividend paid out rate of 0% and annual risk-free interest rate 2.82%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.
14. In the extraordinary general meeting of the Company held on 20th June 2008, an ordinary resolution was passed by the shareholders of the Company to refresh the scheme mandate limit under the Share Option Scheme. For details, please refer to the Company's circular and announcement of the Company dated 5th June 2008 and 20th June 2008, respectively.
15. The valuation of share options is subject to a number of assumptions and with regard to the subjectivity and uncertainty of the model.
16. The Company has proposed to refresh the scheme mandate limit under the Share Option Scheme, subject to the passing of an ordinary resolution by the shareholders of the Company in the extraordinary general meeting of the Company to be convened and held by the Company on 13th May 2011 (or any adjournment thereof). For details, please refer to the circular of the Company dated 26th April 2011.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31st March 2011, the interests and short positions of every person (not being Directors or chief executives of the Company) in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO were as follows:

Name of shareholder	Class of shares	Long position	Nature of short position	Capacity	Approximate percentage of shareholding
<i>Substantial shareholders</i>					
McCarthy Kent C.	Ordinary	93,648,000 (Note 1)	–	Interest in controlled corporations	19.14%
McGovern Patrick J.	Ordinary	78,730,697 (Note 2)	–	Interest in controlled corporations	16.09%
Geng Yi	Ordinary	67,187,771 (Note 3)	–	Beneficial owner/ Family interests	13.73%
Zhou Quan	Ordinary	53,256,743 (Note 4)	–	Interest in controlled corporations	10.89%

Notes:

1. Such interest in the Company comprises 88,209,568 shares of the Company held by Jayhawk Private Equity Fund, L.P. and 5,438,432 shares of the Company held by Jayhawk Private Equity Co-Invest Fund, L.P., respectively. The entire issued share capital of each of the abovementioned entities is owned by Mr. Kent C. McCarthy.
2. Such interest in the Company comprises 25,473,954 shares of the Company owned by IDG Technology Venture Investment, Inc., a wholly-owned subsidiary of International Data Group, Inc., whose majority of shares is held by Mr. Patrick J. McGovern, 16,664,743 shares of the Company owned by IDG Technology Venture Investments, L.P., a Delaware limited partnership controlled by IDG Technology Venture Investments, LLC, which is in turn jointly controlled by Mr. Patrick J. McGovern and Mr. Zhou Quan, and 36,592,000 shares of the Company owned by IDG Technology Venture Investment III, L.P., a Delaware limited partnership controlled by IDG Technology Venture Investment III, LLC, which is in turn jointly controlled by Mr. Patrick J. McGovern and Mr. Zhou Quan.
3. Such interest in the Company comprises:
 - (a) 50,253,771 shares of the Company of which 49,179,146 shares of the Company are held by Mr. Guo Jiang, Ms. Geng's spouse; and
 - (b) 16,934,000 underlying shares of the Company derived from the share options granted under the Share Option Scheme of which 11,000,000 underlying shares derived from the share options granted to Mr. Guo Jiang, Ms. Geng's spouse, under the Share Option Scheme.

- Such interest in the Company comprises 16,664,743 shares of the Company owned by IDG Technology Venture Investments, L.P., a Delaware limited partnership controlled by IDG Technology Venture Investments, LLC, which is in turn jointly controlled by Mr. Patrick J. McGovern and Mr. Zhou Quan, and 36,592,000 shares of the Company owned by IDG Technology Venture Investment III, L.P., a Delaware limited partnership controlled by IDG Technology Venture Investment III, LLC, which is in turn jointly controlled by Mr. Patrick J. McGovern and Mr. Zhou Quan.

Save as disclosed above, as at 31st March 2011, the Company had not been notified of any interests or short positions of substantial shareholders or other persons in the shares and underlying shares of the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO.

AUDIT COMMITTEE

Pursuant to Rule 5.28 of the GEM Listing Rules, the Company established an audit committee on 24th July 2003 with written terms of reference based on the guidelines set out in "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprises two independent non-executive Directors, namely Mr. Zhang Ke and Mr. Xiang Bing, and a non-executive Director, namely Mr. Li Jianguang. Mr. Zhang Ke is the Chairman of the audit committee.

The audit committee has reviewed with management of the Company the accounting principles and practices adopted by the Group, and the unaudited first quarterly results of the Group for the period ended 31st March 2011.

DIRECTORS' AND MANAGEMENT SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Each of the Directors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has confirmed that none of them had any business or interest in any company that competes or may compete with the business of the Group or any other conflict of interests with the interests of the Group during the three months ended 31st March 2011.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the three months ended 31st March 2011.

By order of the Board
HC International, Inc.
Guo Jiang
Executive Director and Chief Executive Officer

Beijing, the PRC, 11th May 2011

As at the date of this announcement, the Board comprises:

Mr. Guo Fansheng (*Executive Director and Chairman*)
Mr. Guo Jiang (*Executive Director and Chief Executive Officer*)
Ms. Guo Bingbing (*Executive Director and Chief Financial Officer*)
Mr. Li Jianguang (*Non-executive Director*)
Mr. Zhang Ke (*Independent non-executive Director*)
Mr. Xiang Bing (*Independent non-executive Director*)
Mr. Guo Wei (*Independent non-executive Director*)

This announcement will remain on the pages of "Latest Company Announcements" on the GEM website at <http://www.hkgem.com> for at least 7 days from the date of its posting and the Company's website at <http://www.hcgroup.com>.